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     UNITED STATES BANKRUPTCY COURT
     SOUTHERN DISTRICT OF NEW YORK
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     In re
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                                    Case No.
     WORLDCOM, INC., et al,
                                   02-13533
 6
             Reorganized Debtors.
 7
 8
                 August 9, 2005
                 10:40 a.m.
 9
                 United States Custom House
10
                 One Bowling Green
                 New York, New York 10004
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                EXCERPT
12
            (Parus Holdings, Inc.)
13
     10:30 Motion by Parus Holdings, Inc. to
     compel production of documents and to extend
     discovery deadlines.
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     Response filed.
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     BEFORE:
19
        THE HONORABLE ARTHUR J. GONZALEZ
        United States Bankruptcy Judge
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3 1 Proceedings 2 (Whereupon, the following is an 3 excerpt from the proceedings taken on 8/9/05 4 in re WorldCom, Inc., et al, Case No. 5 02 - 13533)6 JUDGE GONZALEZ: I will take a 7 brief recess so that the parties on Parus 8 Holdings, who are present in the courtroom, 9 may set themselves up. I will return at 10 10:30. 11 (Whereupon, from 10:25 p.m. to 12 10:40 a.m. a recess was taken.) 13 JUDGE GONZALEZ: Please be seated. 14 Parus Holdings? 15 MR. WOOD: Good morning, Your 16 Stephen Wood on behalf of the Honor. 17 Claimant Parus Holdings. 18 This is Parus Holdings' motion to 19 compel production of documents from the 20 Debtors Intermedia Communications and MCI 21 Worldcom Communications, Inc. Our motion 22 contains an exhaustive recitation of the 23 circumstances surrounding this discovery 24 dispute. I don't intend this morning to wade 25 through all of the details. I would like to

4 1 Proceedings 2 highlight certain facts that I think are 3 particularly pertinent to the motion. 4 On February 7, 2005, over six 5 months ago, we served our request for 6 production of documents. On March 25, 2005, 7 we received a written response from the Debtors. They objected to every single one 8 9 of our requests. Along with this, we 10 received the production of 33 documents 11 consisting of over 343 pages. In this 12 production in their written response the 13 Debtors indicated that they had thousands of 14 boxes of documents within warehouses. 15 been informed about this probably a couple of 16 weeks before that by telephone. We don't 17 know at this point exactly how long it is the Debtors had known about these boxes in 18 19 warehouses. 20 Interestingly, during the 21 teleconference with the Court on June 29th, 22 where we were given leave to present this 23 motion to compel, the Court suggested that 24 the Debtors submit an affidavit regarding 25 their efforts to produce documents.

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haven't seen such an affidavit so far, Your
honor.

Now, after March 25th, for several weeks we didn't receive any further communication or documents from the Debtors, so on May 12th I contacted Debtors' counsel to inquire about documents, but also about the scheduling order because we had a June 20th deadline for disclosing experts. represented to Debtors' counsel that since we hadn't received the documents and we hadn't taken depositions of any of their witnesses, we weren't in a position to disclose our experts. I asked them to agree to amend the schedule. They subsequently informed me that they would object and would not agree to amending the schedule allowing us additional time to disclose experts.

Finally, on May 31st I received, not documents, but a proposal from Debtors' counsel for production of these thousands of boxes of documents that were stored in warehouses. The essence of the proposal was that there were indexes for these documents.

1	Proceedings
2	The indexes were not very precise. In fact,
3	Debtors' counsel admitted they were not able
4	to use these indexes to help them identify
5	responsive documents. Nevertheless, they
6	wanted to provide us with these indexes and
7	they invited us to review them to identify
8	boxes of documents that were responsive to
9	our requests, that they would then review for
10	privilege and confidentiality and produce it
11	to us. This proposal again recited the
12	litany we had heard earlier about thousands
13	of boxes of documents stored in multiple
14	locations around the country.
15	Now, the letter also interestingly
16	indicated that they hadn't actually reviewed
17	any of the stored documents at that point.
18	There was no mention in this proposal
19	regarding electronic documents. Now, we
20	wrote them back the next day and, frankly, we
21	resisted this proposal. I didn't feel that
22	if their own indexes were not helpful to
23	them, they would be of any use to us.
24	Now, there was a hearing before
25	Your Honor on June 14th on another motion.

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Parus had brought a motion to amend that was argued on that day. During the argument on that motion, I raised the issue of the scheduling order and the discovery problems, and the Court directed the parties to confer about the schedule and about these discovery issues. As a result of that conference with counsel, we agreed to take a look at their indexes and they were going to try to move the process forward.

The next thing is the indexes were transmitted to us. I looked at them personally and they really were not of any help to us. There are a number of codings that are used in these indexes that are meaningless to us, and we were not able to identify boxes of responsive documents with these indexes.

Now, as I said, this Court held a telephone conference on June 29th regarding the scheduling order and these discovery issues. Interestingly, that morning I received a telephone call from Debtors' counsel where they offered to agree to a

8 1 Proceedings 2 120-day extension to our deadline to 3 disclosure experts. I don't know what 4 happened in the interim to cause them to 5 change their position, but it may have had 6 something to do with the fact that a 7 conference was scheduled with the Court that 8 afternoon. I asked them if they would then 9 agree to produce the documents by a date 10 certain in advance of the disclosure deadline 11 for our experts and they refused to. 12 Now, prior to the telephone 13 conference with the Court on June 29th, the 14 Debtors also began to take the position that 15 they had, in fact, produced their documents. 16 I received an e-mail communication from 17 Debtors' counsel which stated the following: 18 "On May 31, 2005 we sent you a letter which 19 produced the documents and talked about the 20 procedures for production. We have advised 21 you as to the location of the documents. have an index of the documents. 22 The 23 documents have been produced and it is up to 24 you to inform us as to when you want to review the documents." 25

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Additionally, there is the subject of the cost of review. "Since you want to examine the documents we expect that you will pay the cost of removing them from the storage shelves and returning them to the storage shelves." Now, they are asking us to also pay for the costs of reviewing their documents.

We advised the Debtors on the 27th of June that their indexes were not helpful. Frankly, since the 25th of the March, when we received their written response to our request for production of documents, it appeared as though the Debtors really hadn't done anything with regard to these stored documents and reviewing and producing them to us.

Now, in an e-mail to the Debtors' counsel on the 27th of June, we found out that there were still more documents that evidently were responsive that they were intending to produce. I don't know where these documents were kept or where they were coming from or why they hadn't been produced

10 1 Proceedings 2 There was no explanation with earlier. 3 regard to that in the e-mail communication 4 from Debtors' counsel. 5 Now, as I said, there was an 6 informal conference with Your Honor on the 7 29th of June, where we were granted leave to 8 file a motion to compel. Within an hour 9 after that telephone conference had 10 concluded, we received an offer from Debtors' 11 counsel where for the first time they agreed 12 to review their boxes of documents for 13 responsiveness. This was made in spite of 14 earlier representations from the Debtors that 15 they had done more than the rules required, 16 and despite earlier representations by the 17 Debtors, that they had no way to tell which 18 boxes of documents were responsive. 19 Now, in response to this proposal, I saw this as progress, Your Honor, but they 20 21 still wanted us to absorb costs for producing 22 these documents, and they would not commit to 23 producing the documents by a date certain. For those reasons, I declined their offer. 24 25 Amazingly, a few days later we

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1 Proceedings 2 received a supplemental document response, 3 which contained objections to every single 4 one of our document requests with no 5 documents. On that same day we also received 6 correspondence from Debtors' counsel wherein 7 they demanded that we respond with all of our 8 remaining documents to be produced within 10 9 In light of their position and their 10 refusal to commit to producing their own 11 documents by a date certain, I found this 12 demand to be quite astounding. 13 I suspect that counsel for the 14 Debtors will represent to the Court that all 15 of the steps that they have taken so far have 16 been reasonable and in compliance with the 17 I don't agree with that, Your Honor. rules. 18 In our motion we have cited the 19 Chemtex case, which is a Southern District of 20 New York case, which I believe supports our 21 position. Rule 34 of the Federal Rules of 22 Civil Procedure, which is applicable to this 23 proceeding, provides that parties may produce

documents in the manner in which they are

kept in the usual course of business.

12 1 Proceedings 2 However, I believe that the usual course of 3 business does not cut it, if you will, when 4 that claim has the effect of affording 5 legitimate discovery. This is the point that 6 is made by the Court in the Chemtex case. 7 that case the plaintiffs served a request for 8 documents. The documents were organized 9 chronologically, rather than by customers. 10 The plaintiffs were seeking documents 11 relevant to a couple of particular customers. 12 The defendant in that case invited the plaintiffs to come in and review the 13 14 documents in the manner in which they were 15 allegedly kept in the usual course of 16 business. The Court held that that was 17 insufficient under the rules, because the 18 state of the corporation's records would make 19 it unreasonably burdensome for the 20 discovering party to search for the sought 21 after documents, the burden falls to the 22 discoveree to organize the documents so that 23 the discoverer can make reasonable use of 24 them. 25 Now, the cases that have been cited

1 Proceedings by the Debtors in their response to our 2 3 motion, I believe, Your Honor, are actually 4 not inconsistent with this principle. 5 believe the courts in those cases came to the 6 conclusion that responsive documents were, in 7 fact, produced in those cases and that plaintiffs had been given reasonable access 8 9 to those documents. That is not the case 10 here. 11 Now, in the response the Debtors 12 indicate that they are prepared to review and 13 produce 387 boxes of documents from these 14 warehouses that they have been discussing 15 repeatedly throughout this discovery dispute. 16 I don't know why they didn't offer to produce these 387 boxes of documents back in March. 17 18 I don't understand. My client is frankly 19 troubled, Your Honor, because he had to go to 20 the expense of bringing a motion to compel to 21 get progress in discovery. I think the 22 history of discovery in this case is that the 23 Debtors won't take action until there is 24 imminent Court involvement. They wouldn't 25 agree to extend the deadline for expert

1 Proceedings 2 disclosure until we were on the cusp of a 3 teleconference with the Court, and they wouldn't agree to review and produce 4 5 documents from these warehouses until we were 6 given permission to present a motion to 7 compel. I believe that that justifies an award of fees and costs incurred in 8 9 presenting this motion this morning. 10 I would say one last thing about 11 this motion for summary judgment that the Debtors have filed. It was filed one week 12 13 ago on August 1st. I believe, Your Honor, 14 that it was filed without compliance with the 15 local rules which requires parties to request 16 an informal premotion conference. Frankly, 17 the motion for summary judgment quite 18 extraordinarily states that if it is granted, 19 we would be entitled to no discovery 20 whatsoever, which I certainly don't agree 21 with and I don't agree with the merits for 22 the motion for summary judgment. I don't 23 think that the motion for summary judgment 24 should be considered, frankly, particularly 25 in light of the fact that it was improperly

15 1 Proceedings 2 filed in response to our opposition to this 3 motion to compel. 4 In our motion to compel, Your 5 Honor, we didn't address the issue of electronic documents. Frankly, I don't think 6 7 there is a sufficient factual record before the Court to deal with the issue of 8 9 production or cost shifting with regard to the Debtors' electronic documents. 10 11 indicated in our motion and in the brief 12 reply, which we filed yesterday, that we 13 would like to work with the Debtors' counsel 14 to see if there was some resolution that we 15 can work out with regard to the production of 16 their electronic documents. I don't think 17 that that is an issue that is completely ripe 18 for consideration by this Court today. 19 The relief that we are seeking, 20 Your Honor, is an order directing the parties 21 to produce their responsive documents. It is 22 applicable to both parties by both sides by a 23 date certain. I am willing to listen to the 24 proposal of the Debtors' counsel concerning

the date. We would also like both parties to

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16 1 Proceedings 2 be required to produce a privilege log by 3 that same date. The order should direct the 4 parties to bear their own costs of 5 production. As I said earlier, I would 6 request an award of reasonable fees and costs 7 in connection with bringing this motion. 8 Thank you. 9 The Debtors? JUDGE GONZALEZ: 10 MR. DRISCOLL: Your Honor, this is 11 Robert Driscoll for the Debtors. 12 Initially, as a point of 13 clarification, counsel advised the Court that 14 the Debtors were to provide an affidavit to 15 the Court per the Court's advice. I forget 16 the date. June 29, 2005 was the telephone 17 conference. I have the transcript in front 18 of me and at page 14 the Court advised 19 counsel for Parus Holdings to file an 20 affidavit in connection with his anticipated 21 motion to compel, which, in fact, counsel 22 did. The Court was not directing the Debtors 23 to do that. 24 With regard to the motion to 25 compel, which is in front of the Court today,

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I believe it really all just centers on what constitutes production of documents in the usual course of business as provided by Rule 34 of the Federal Rules of Civil Procedure. Here it regards a contract between Parus Holdings' predecessor company EffectNet and one of the Debtors, Intermedia, Inc.

As the Court knows, Intermedia is a bankrupt entity that ceased functioning as a going concern quite some time ago and, as we have discovered, its documents have been boxed up and stored. All this occurred long before the current discovery request by Parus Holdings.

As counsel has advised and the papers in front of the Court advise, we are told that the number of boxes of material in Intermedia's documentary remains are in excess of 10,000. They are located in four different repositories in various parts of the United States. All this is reflected in the declaration of Attorney Ramsay from our law firm, which is Exhibit E to our response in opposition to the current motion to

18 1 Proceedings 2 compel. 3 As Mr. Ramsay explained in his 4 response, just to gather the over 10,000 5 documents in one place, so that they could be 6 systematically reviewed, based on a vendor's 7 bid, it would cost approximately \$149,000. That is just for logistics. It does not 8 9 count the cost probably double that for 10 actual review by trained personnel. 11 As to the efforts the Debtors have 12 made to deal with the document request that 13 it has presented, after the existence of 14 those documents was learned, as counsel 15 acknowledges, Parus Holdings was advised of 16 that and the Debtors offered at least two 17 options to Parus Holdings on how to deal with 18 the production of documents, both of which 19 were rejected. The first we offered to 20 provide and did provide indexes to those 21 boxes to counsel so that counsel could select 22 which boxes they wanted WorldCom to examine 23 and then produce. That was rejected as 24 reflected in Exhibit I to our response by

counsel on June 27th, advising that after his

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19 1 Proceedings review of the indexes they were too general 2 and that nonresponsive documents were 3 4 involved and were meaningless. 5 Next WorldCom offered to review all 6 of the documents itself and to screen those 7 for privilege. It also offered to either provide to Parus Holdings all of the 8 9 remaining documents after a privilege screen 10 or, if Parus Holdings chose, to provide all 11 documents that we believed were responsive to 12 the document request after that review. 13 connection with that offer, there was a 14 request for a split of the logistical costs, 15 not the cost of reviewing the documents. All 16 of that is reflected on Exhibit K to the Debtors' response in opposition. Again, this 17 18 proposal was rejected by Parus Holdings and 19 that is reflected in Exhibit L. 20 Finally, as our response starting 21 at page 9, I indicated this along with 22 Mr. Ramsay's declaration Exhibit E, WorldCom 23 is in the process of doing now what Parus 24 Holdings initially refused to do, and that

is, based on a review of the very same

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document indexes to first rule out those obviously nonresponsive boxes of documents based on the index and then to pull others within the time frame overlapping and before and after the contractual relationships between Intermedia and WorldCom and then to review those. As you have been advised, the number of those document boxes that we have identified is 387. They are currently located in Kansas City, having been shipped to three different repositories, and we have a team of legal personnel looking through them.

Counsel is correct, I do believe, that that constitutes a good faith effort to be in compliance with the requirements of Rule 34. I also believe that none of the authorities cited by Parus Holdings are to the contrary. All except one, the Hagemeyer case from the Eastern District of Wisconsin involved producing parties which were ongoing concerns -- General Motors, Sears, and the like. All they wanted in the Hagemeyer case involved an entity that was factually similar

21 1 Proceedings 2 to Intermedia. There that producing party was also going bankrupt. That party also had 3 its documents boxed and stored. That party 4 5 also made those documents available to the 6 other side, which the Court upon reviewing 7 all of that, deemed compliant. If the Court now deems WorldCom's motion for summary 8 9 judgment as permissible, which I believe it 10 is --11 JUDGE GONZALEZ: It was filed, 12 apparently, in violation of the local rules. 13 MR. DRISCOLL: It was filed without 14 a conference, Your Honor. 15 JUDGE GONZALEZ: It was filed in 16 violation of the local rules. 17 MR. DRISCOLL: Yes, Your Honor. 18 JUDGE GONZALEZ: Move on. 19 MR. DRISCOLL: May we request leave 20 to file such? 21 JUDGE GONZALEZ: Are you talking 22 about whether or not I would grant it right 23 now? 24 MR. DRISCOLL: If the Court doesn't 25 wish to entertain this now, then I will

22 1 Proceedings 2 withdraw the question? 3 JUDGE GONZALEZ: Yes. You may 4 withdraw the question. 5 Go ahead. 6 MR. DRISCOLL: At this juncture I 7 believe WorldCom has made a good faith effort to supply the documents that it has given the 8 9 circumstances present. 10 JUDGE GONZALEZ: You went through the recitation of the facts as you see them. 11 12 What do you anticipate happening and when and 13 where will the documents be available? 14 MR. DRISCOLL: The boxes of the 387 15 that WorldCom has identified are in an 16 auxiliary facility of this law firm in Kansas 17 City now. It has taken weeks to get them 18 here, but they are now here. They are 19 currently being examined by legal personnel. I am advised that a review of those boxes 20 21 will take approximately six to eight weeks, 22 involving approximately six trained people 23 pretty much fulltime. 24 JUDGE GONZALEZ: Where does that 25 six to eight weeks fit into the discovery

23 1 Proceedings 2 time frame? 3 MR. DRISCOLL: Your Honor, it would not fit in at all. In that regard, we would 4 5 have no problem at all extending that 6 discovery time frame. 7 JUDGE GONZALEZ: Then the documents would be made available in Kansas following 8 9 your review? 10 MR. DRISCOLL: They would be made 11 available, as the parties agreed under 12 whatever terms the parties think are 13 appropriate. Certainly, here in Kansas City 14 would be one such place. If that is not 15 agreeable, then whatever is. 16 JUDGE GONZALEZ: Parus Holdings, what is your objection to that proposal, 17 18 other than you may think it took too long to 19 get there? 20 MR. WOOD: I don't have any 21 objection, Your Honor, to concurring with 22 counsel regarding the appropriate location 23 for producing these documents to us. It may 24 be, in fact, depending on the circumstances, more cost effective for us to send some 25

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people to Kansas City. I just don't know at this point, but I am happy to discuss that with counsel. As far as their agreeing to review and produce 387 boxes of documents and reviewing them for responsiveness or producing responsive documents to us at their cost, I have no objection to that whatsoever.

I was going to make a suggestion, I think it might make sense at Your Honor. this point and I don't want Debtors' counsel to review all 10,000 boxes of documents. Ιf there are documents in there or boxes of documents that are clearly outside the relevant time frame or clearly unrelated to the issues in this case, I don't want to waste time looking at all 10,000 boxes of documents. I do want them to produce documents that are responsive to our requests. We can take a look at the 387 boxes of documents and see where we stand after we have had an opportunity to review It may be appropriate, Your Honor, at that point for us to have a informal conference with the Court and advise the

25 1 Proceedings 2 Court as to the status of the document 3 production at that point. 4 JUDGE GONZALEZ: I think it would, 5 because it would seem to me if you get to the 6 300 number, the descriptions on the boxes 7 were reviewed and certain boxes were eliminated, and I would imagine that you may 8 9 take issue with the elimination of certain 10 boxes based on the information contained in 11 the inventory as to whether that was 12 sufficient enough to make the judgment that 13 these boxes were not related. I imagine that 14 may be an issue. 15 That is a good point, MR. WOOD: 16 Your Honor. As I have been thinking about 17 these issues, what I anticipate that may need 18 to happen here is that we may need to take 19 the deposition of the person most 20 knowledgeable for the Debtors concerning how 21 these documents were stored and how these 22 indexes were created and that sort of thing, 23 so that we can better understand exactly what 24 efforts the Debtors have undertaken to 25 respond to our document requests.

26 1 Proceedings 2 JUDGE GONZALEZ: Based on the 3 Debtors' representation, I don't think Parus 4 is going to see these documents for six or 5 eight weeks, but I guess you would be able to 6 see the list of the 300 or so boxes and match 7 that up against the original list you have? Yes. 8 MR. WOOD: I would imagine 9 that that probably could be provided 10 forthwith. JUDGE GONZALEZ: Do both sides 11 12 think that August 30th is too soon to react to the proposal that is before me now? 13 14 MR. WOOD: Do you mean that is the 15 date by which they should be prepared? 16 JUDGE GONZALEZ: No. I mean at 17 that point, I think if you were able to 18 review the list of the 10,000 boxes or review 19 the list of the 300 boxes, you may get a 20 sense at that point as to whether or not you 21 are going to need any further discovery on 22 the whole issue as to whether it was 23 reasonable to pare them down from 10,000 to 24 the 300. 25 MR. WOOD: I think we can do that

27 1 Proceedings 2 by the end of August. 3 JUDGE GONZALEZ: The Debtors? 4 MR. DRISCOLL: Yes. Your Honor, 5 counsel already has the indexes to the 6 documents. We can certainly supply within 7 this week some form of notification for which those were chosen to be pulled and are being 8 9 examined. 10 JUDGE GONZALEZ: I am going to put 11 off then any further consideration of this 12 until August 30th, and, hopefully, I think 13 what I will do is ask when August 30th is 14 scheduled for this matter, that 45 minutes 15 may be set aside on the calendar in case that 16 time might be necessary. 17 The Court is going to MR. WOOD: 18 set a hearing in this matter for August 30th? 19 JUDGE GONZALEZ: I am going to 20 continue this hearing until August 30th. 21 MR. WOOD: I don't have my calendar 22 in front of me, Your Honor. 23 JUDGE GONZALEZ: I am sure it is a 24 Tuesday. 25 MR. DRISCOLL: My apologies, Your

28 Proceedings 1 Honor, I do have a conflict. It is personal. 2 3 JUDGE GONZALEZ: I believe we can 4 put it on sometime on Thursday, September 5 1st. Do you have a conflict then? 6 MR. WOOD: Yes, Sir. JUDGE GONZALEZ: When are you out 7 of conflict? 8 9 MR. WOOD: After Labor Day, Your 10 Honor. 11 JUDGE GONZALEZ: Labor Day, I 12 assume is September 5th? MR. DRISCOLL: I believe it is. 13 14 JUDGE GONZALEZ: Mr. Perez, do you 15 know if we have WorldCom hearings on 16 September 6th? MR. PEREZ: Your Honor, I don't 17 18 know whether we have WorldCom hearings on 19 September 6th. I am pretty sure we have them 20 the following week. 21 JUDGE GONZALEZ: On the 13th? 22 MR. PEREZ: It would take me two 23 minutes to check. 24 JUDGE GONZALEZ: Check to see if we 25 have WorldCom on the 6th; and if not the 6th,

29 1 Proceedings 2 then it would be the 13th. 3 We will begin the next matter. We will get an answer shortly as to whether it 4 5 will be the 6th or the 13th. 6 (Whereupon, the two matters were 7 called in re WorldCom and a recess was taken until 11:20 a.m.) 8 9 JUDGE GONZALEZ: Please be seated. 10 MR. PEREZ: Your Honor, just to 11 clean up from, not the last, but the prior 12 matter, I am informed that there is no 13 hearing on the 6th and that the next one is 14 on the 13th. 15 JUDGE GONZALEZ: We will leave it 16 for the 13th. It will be adjusted on the 17 calendar on the 13th. In all likelihood, it 18 will be towards the end. If not late 19 morning, early afternoon. 20 MR. WOOD: I have one question. 21 might be advantageous to actually supply the 22 Court with these indexes. They are in e-mail 23 form right now, so is it possible to e-mail 24 them to the Court? 25 JUDGE GONZALEZ: Yes. Just check

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     STATE OF NEW YORK
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             I, DEBORAH HUNTSMAN, a Shorthand
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     Reporter and Notary Public within and for the
 8
     State of New York, do hereby certify:
 9
               That the within is a true and
10
     accurate transcript of the proceedings taken
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     on the 9th day of August, 2005.
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             I further certify that I am not
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     related by blood or marriage to any of the
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     parties and that I am not interested in the
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     outcome of this matter.
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             IN WITNESS WHEREOF, I have hereunto
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     set my hand this 18th day of August, 2005.
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                     DEBORAH HUNTSMAN
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